
AGENCY: Retirement Division

SUBJECT: Cost-of-Living Adjustment

A cost-of-living adjustment for retirees of the South Carolina Retirement System is granted in accordance with the S. C. Code of Laws, Section 9-1-1810 which currently provides that "If the Consumer Price Index (CPI) increases by more than one percent, then the retirement allowance of each beneficiary must be increased by one percent and the retirement allowance may be further increased beyond one percent up to the lesser of the total percentage increase of the CPI or four percent, to the extent that the additional liabilities because of the increase in allowances would not extend the amortization period to liquidate the unfunded actuarial accrued liability of the South Carolina Retirement System beyond thirty years. In considering this additional increase, the board shall consider unrealized investment gains and losses".

A cost-of-living adjustment for retirees of the Police Officers Retirement System is granted in accordance with the S.C. Code of Laws, Section 9-11-310, which currently provides that "If the Consumer Price Index (CPI) increase equals or exceeds four percent, the retirement allowance must be increased by four percent. If the increase in the index is less than four percent, the retirement allowances, as determined above, must be increased by a percentage equal to the increase in the index. The increase in allowances is effective only if the additional liabilities on account of the increase in allowances do not require an increase in the employer rate of contribution. The allowance of a surviving annuitant of a beneficiary whose allowance is increased under this section, when and if payable, must be increased by the same percent."

BOARD ACTION REQUESTED:

Within the context of 9-11-310 and 9-8-90, and the attached supporting documents, consider approval of a 2.4% cost-of-living adjustment (COLA) effective July 1, 2007, for retirees and beneficiaries receiving annuity benefits under PORS and non-spousal beneficiaries under JSRS; and within the context of 9-1-1810, consider approval of a 1.4% ad hoc COLA effective July 1, 2007, (in addition to the 1% COLA as provided by statute) for retirees and beneficiaries under SCRS, by increasing the employer contribution rate according to the attached actuarial fiscal impact statement sufficient to fund a 1.4% ad hoc COLA.

To the extent necessary, consider suspending for this year that portion of the Board Funding Policy dealing with COLAs and grant a 2.4% ad hoc COLA effective July 1, 2007, for qualifying retirees and beneficiaries (those persons whose retirement was in effect July 1, 2006) covered under PORS and non-spousal beneficiaries under JSRS, and grant a 1.4% ad hoc COLA to retirees and beneficiaries covered under the SCRS if the Board determines that statutory and regulatory requirements have been met to do so.

ATTACHMENTS:

Agenda item worksheet; 9-1-1810 (2005); 9-11-310 (2001); 9-8-90 (1979); Retirement Systems Funding Policy; January 22, 2007 Letter from Dr. Gillespie Re: CPI; Letters from Milliman re: the actuarial impact of granting SCRS and PORS cost-of-living adjustments (COLAs)

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

For meeting scheduled for:

May 15, 2007

Blue Agenda

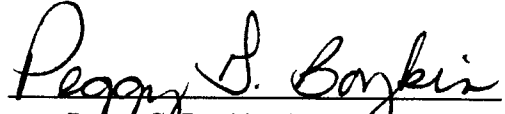
X Regular Session

Executive Session

1. Submitted by:

(a) Agency: BC&B Retirement Division

(b) Authorized Official Signature


Peggy G. Boykin, CPA, Director

2. Subject: Cost-of-Living Adjustment

3. Summary Background Information:

A cost-of-living adjustment for retirees of the South Carolina Retirement System is granted in accordance with the S. C. Code of Laws, Section 9-1-1810 which currently provides that "If the Consumer Price Index (CPI) increases by more than one percent, then the retirement allowance of each beneficiary must be increased by one percent and the retirement allowance may be further increased beyond one percent up to the lesser of the total percentage increase of the CPI or four percent, to the extent that the additional liabilities because of the increase in allowances would not extend the amortization period to liquidate the unfunded actuarial accrued liability of the South Carolina Retirement System beyond thirty years. In considering this additional increase, the board shall consider unrealized investment gains and losses".

A cost-of-living adjustment for retirees of the Police Officers Retirement System is granted in accordance with the S.C. Code of Laws, Section 9-11-310, which currently provides that "If the Consumer Price Index (CPI) increase equals or exceeds four percent, the retirement allowance must be increased by four percent. If the increase in the index is less than four percent, the retirement allowances, as determined above, must be increased by a percentage equal to the increase in the index. The increase in allowances is effective only if the additional liabilities on account of the increase in allowances do not require an increase in the employer rate of contribution. The allowance of a surviving annuitant of a beneficiary whose allowance is increased under this section, when and if payable, must be increased by the same percent. "

4. What is Board asked to do?

Within the context of 9-11-310 and 9-8-90, and the attached supporting documents, consider approval of a 2.4% cost-of-living adjustment (COLA) effective July 1, 2007, for retirees and beneficiaries receiving annuity benefits under PORS and non-spousal beneficiaries under JSRS; and within the context of 9-1-1810, consider approval of a 1.4% ad hoc COLA effective July 1, 2007, (in addition to the 1% COLA as provided by statute) for retirees and beneficiaries under SCRS, by increasing the employer contribution rate according to the attached actuarial fiscal impact statement sufficient to fund a 1.4% ad hoc COLA.

To the extent necessary, the Board may also need to consider suspending for this year that portion of the Board Funding Policy dealing with COLAs and grant a 2.4% ad hoc COLA effective July 1, 2007, for qualifying retirees and beneficiaries (those persons whose retirement was in effect July 1, 2006) covered under PORS and non-spousal beneficiaries under JSRS, and grant a 1.4% ad hoc COLA to retirees and beneficiaries covered under the SCRS if the Board determines that statutory and regulatory requirements have been met to do so.

7. Supporting Documents:

List those attached:

List those not attached but available:

9-1-1810 (2005,) 9-11-310 (2001), 9-8-90 (1979); Retirement Systems Funding Policy;
January 22, 2007 Letter from Dr. Gillespie Re: CPI;
Letters from Milliman re: the actuarial impact of granting SCRS and PORS cost-of-living adjustments (COLAs)

SOUTH CAROLINA RETIREMENT SYSTEMS FUNDING POLICY

Policy Objective

The primary objective of the State Budget and Control Board with regard to this policy is to ensure that the public retirement systems for which it is responsible become increasingly stronger financially and pay all benefits pledged using assets accumulated from required employer and employee contributions and their investments.

Specific Purpose

To establish and set forth the essential funding goals of the South Carolina Retirement Systems (System) and the methods to measure progress toward those goals.

Goals

- To maintain a stable or increasing ratio of system assets to accrued liabilities.
 - To accumulate sufficient assets to finance the benefits promised to members.
 - To sustain a pattern of constant and consistent contribution rates expressed as a percentage of member payroll and as measured by annual valuations prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board.
 - To provide intergenerational equity for taxpayers with respect to system costs.
-

Measurements

- *The funding ratio derived by dividing the actuarial value of system assets by the system's actuarial accrued liability.* This funding ratio should remain stable or increase each year before adjustments for changes in benefits, actuarial methods, and actuarial assumptions.
 - *A short condition test that compares the actuarial value of system assets to the sum of the retiree liability and active member accumulated contributions.* System assets should exceed the sum of the retiree liability and active member accumulated contributions.
 - *The stability of employer and employee contribution rate history.* Employer and member contribution rates should remain reasonably constant and consistent from year to year when expressed as a percentage of active member payroll.
 - *The amortization period for the system's "unfunded actuarial accrued liability" (UAAL).* This period should remain constant or decline and should not exceed 30 years for any reason.
-

Cost-of-Living Adjustments (COLAs)

To grant a COLA in a given year, the amortization period in the most recent actuarial valuation, with the liability for the COLA under consideration included in the UAAL and with the elimination of the effect of any changes in benefits, actuarial methods, and actuarial assumptions, must be at or below the amortization period for the preceding year.

Actuarial Methods and Assumptions

The actuarial funding methods and assumptions to be used, unless otherwise specified in state law, will be adopted by the Budget and Control Board upon the advice and recommendations of the system's actuary.

SECTION 9-1-1810. Increase in allowances based on Consumer Price Index.

(A) As of the end of each calendar year, the increase in the ratio of the Consumer Price Index to index as of the prior December thirty-first must be determined.

(B)(1) If the Consumer Price Index as determined pursuant to subsection (A) of this section increase no more than one percent, the retirement allowance, inclusive of the supplemental allowances payable under the provisions of Sections 9-1-1910, 9-1-1920, and 9-1-1930, of each beneficiary in receipt of a retirement allowance must be increased by a percentage equal to the increase in the index.

(2) If the Consumer Price Index as determined pursuant to subsection (A) of this section increase more than one percent, then:

(a) the retirement allowance of each beneficiary in receipt of an allowance, inclusive of the supplemental allowances payable under the provisions of Section 9-1-1910, 9-1-1920, and 9-1-1930, must be increased by one percent; and

(b) the retirement allowance may be further increased beyond one percent up to the lesser of the percentage increase in the Consumer Price Index or four percent, to the extent that the additional liabilities because of the increase in allowances would not extend the amortization period to liquidate unfunded actuarial accrued liability of the South Carolina Retirement System beyond thirty years. Considering this additional increase, the board shall consider unrealized investment gains and losses.

(C) The increase in retirement allowances commences the July first immediately following the December thirty-first that the increase in ratio was determined, and all increases in retirement allowances are granted to these beneficiaries in receipt of a retirement allowance on July first immediately preceding the effective date of the increase. Any increase in allowance granted pursuant to this section must be included in the determination of any subsequent increases, irrespective of any subsequent decrease in the Consumer Price Index.

(D) The allowance of a surviving annuitant of a beneficiary whose allowance is increased under this section must, when and if payable, be increased by the same percent.

(E) For purposes of this section, "Consumer Price Index" means the Consumer Price Index for Wage Earners and Clerical Workers, as published by the United States Department of Labor, Bureau of Economic Analysis.

SECTION 9-8-90. Increase in allowances based on Consumer Price Index.

As of the end of each calendar year commencing with the year ending December 31, 1980, the increase in retirement allowances shall be determined in the ratio of the Consumer Price Index to such index as of December 31, 1979, or the most recent December thirty first subsequent thereto as of which an increase in retirement allowances was granted. If the increase equals or exceeds three percent, the retirement allowance of each beneficiary, other than a retired member or his spouse, in receipt of an allowance as of December 31, 1979, or the most recent December thirty first subsequent thereto as of which an increase was granted, shall be increased by four percent. Such increase shall commence the July first immediately following the December thirty first that the increase in ratio was determined. Any increase granted hereunder shall be permanent, irrespective of any subsequent decrease in the Consumer Price Index. The index shall be included in determining any subsequent increase.

For purposes of this section, "Consumer Price Index" shall mean the Consumer Price Index for Urban Wage Earners and Clerical Workers (all items - United States City average), as published by the United States Department of Labor, Bureau of Labor Statistics.

SECTION 9-11-310. Cost-of-living adjustment to be based on Consumer Price Index.

As of the end of each calendar year, the increase in the ratio of the Consumer Price Index to the of the prior December thirty-first must be determined, and if the increase equals or exceeds four the retirement allowance must be increased by four percent. If the increase in the index is less than four percent, the retirement allowances, as determined above, must be increased by a percentage equal to the increase in the index. The increase in retirement allowances commences the July first immediately following the December thirty-first that the increase in ratio was determined.

All increases in retirement allowances must be granted to those beneficiaries in receipt of a retirement allowance on July first immediately preceding the effective date of the increase. The increase in allowances is effective only if the additional liabilities on account of the increase in allowances do not require an increase in the employer rate of contribution. Any increase in allowance granted pursuant to this section is permanent, irrespective of any subsequent decrease in the Consumer Price Index, and must be included in determining any subsequent increase.

The allowance of a surviving annuitant of a beneficiary whose allowance is increased under this section when and if payable, must be increased by the same percent.

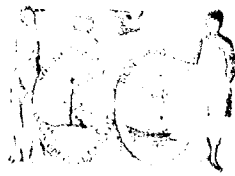
For purposes of this section, "Consumer Price Index" means the Consumer Price Index for Wage and Clerical Workers as published by the United States Department of Labor, Bureau of Labor Statistics.

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF RESEARCH & STATISTICS

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EXECUTIVE DIRECTOR

REMBERT C. DENNIS BUILDING
1000 ASSEMBLY STREET, SUITE 425
COLUMBIA, SOUTH CAROLINA 29201

Bobby Bowers
DIRECTOR

January 22, 2007

Dianne Poston
Assistant Director, SC Retirement Systems
202 Arbor Lake Drive
P.O. Box 11960
Columbia, SC 29211-1960

Dear Ms. Poston,

As a follow up to my letter to you dated January 18, 2006, we have calculated the cost of living increase for the SC Retirement Systems. Pursuant to Section 9-1-1810, the retirement allowance is adjusted each fiscal year based on the increase in the Consumer Price Index for Wage Earners and Clerical Workers as of December 31 of the previous calendar year. As of December 31, 2006, the Index published by the Bureau of Labor Statistics, *Monthly Labor Review*, Table 38, "Consumer Price Index for Urban Wage Earners and Clerical Workers", increased by 2.4% from a value of 192.5 in December 2005 to 197.2 in December 2006.

If I can be of any further assistance, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "William Gillespie".

William C. Gillespie, Ph.D.
Assistant Director

WCG/rwm



Milliman

Consultants and Actuaries

1921 Gallows Road, Suite 900
Vienna, VA 22182-3995
Tel: 703 917-0143
Fax: 703 827-9266
www.milliman.com

April 6, 2007

Ms. Peggy G. Boykin, CPA
Director
South Carolina Retirement Systems
P.O. Box 11960
Columbia, SC 29211-1960

Re: SCRS Valuation – 1.40% Ad Hoc COLA

Dear Peggy:

As requested, we have determined the impact to the unfunded actuarial liability (UAL), and the amortization period of implementing a 1.40% ad hoc COLA for SCRS. We have also determined the additional contribution rate required to maintain a 30 year amortization period. The increase in the employer contribution rate is calculated to begin July 1, 2008.

We have summarized the results below.

	Amount (\$ millions)	Increase / (Decrease) (\$ millions)
7/1/06 Actuarial Valuation		
• Unfunded Actuarial Liability	\$9,725	
• Amortization Period	30.0 years	
• Employer Contribution Rate	9.06%	
1.40% Ad Hoc COLA		
• Unfunded Actuarial Liability	\$9,975	\$250
• Amortization Period	31.3 years	1.3 years
• Employer Contribution Rate Required to Maintain 30.0 year Amortization Period *	9.24%	0.18%

* New rate effective July 1, 2008

The impact above recognizes the actuarial value of assets in determining the additional employer required contribution to maintain a 30.0 year amortization period. This is the same basis as the actuarial valuation results. If instead, the market value of assets were used in the calculations, an additional 0.12% of payroll increase would be required to maintain a 30.0 year amortization period.

This report was prepared solely for the South Carolina Retirement Systems for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

OFFICE OF PRINCIPAL CHARTERED OFFICE



Ms. Peggy G. Boykin, CPA
April 6, 2007
Page 2

Data, Methods, and Assumptions

Our calculations are based on data and other information provided to us by the Retirement System staff to perform the July 1, 2006 actuarial valuations. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

This analysis is based on the results of the July 1, 2006 actuarial valuation, including the data, methods and assumptions contained therein. The results of our study depend on future experience conforming to those actuarial assumptions. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. To the extent future experience deviates from those assumptions, the results of this analysis could vary from the results presented here.

This analysis is solely for the internal use of the SCRS. Milliman does not intend to benefit any third party recipient of this analysis. We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review these proposals with counsel.

If you have any questions, please call.

Sincerely,

Milliman, Inc.

Robert S. Dezube, FSA
Consulting Actuary

C: Tammy Davis
Travis Turner

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Milliman

Consultants and Actuaries

1921 Gallows Road, Suite 900
Vienna, VA 22182-3995
Tel: 703 917-0143
Fax: 703 827-9266
www.milliman.com

April 6, 2007

Ms. Peggy G. Boykin, CPA
Director
South Carolina Retirement Systems
P.O. Box 11960
Columbia, SC 29211-1960

Re: PORS Valuation – 2.40% Ad Hoc COLA

Dear Peggy:

As requested, we have determined the impact to the unfunded actuarial liability (UAL), and the amortization period of implementing a 2.40% ad hoc COLA for PORS. We have also determined the additional contribution rate required to maintain a 17.6 year amortization period. The increase in the employer contribution rate is calculated to begin July 1, 2008.

We have summarized the results below.

	Amount (\$ millions)	Increase / (Decrease) (\$ millions)
7/1/06 Actuarial Valuation		
• Unfunded Actuarial Liability	\$530.4	
• Amortization Period	17.6 years	
• Employer Contribution Rate	10.30%	
2.40% Ad Hoc COLA		
• Unfunded Actuarial Liability	\$570.5	\$40.1
• Amortization Period	19.5 years	1.9 years
• Employer Contribution Rate Required to Maintain 17.6 year Amortization Period *	10.65%	0.35%

*New rate effective July 1, 2008

Data, Methods, and Assumptions

Our calculations are based on data and other information provided to us by the Retirement System staff to perform the July 1, 2006 actuarial valuations. We have not audited or verified this data and other information. If the underlying data or information

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Ms. Peggy G. Boykin, CPA
April 6, 2007
Page 2

is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

This analysis is based on the results of the July 1, 2006 actuarial valuation, including the data, methods and assumptions contained therein. The results of our study depend on future experience conforming to those actuarial assumptions. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. To the extent future experience deviates from those assumptions, the results of this analysis could vary from the results presented here.

This analysis is solely for the internal use of the SCRS. Milliman does not intend to benefit any third party recipient of this analysis. We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review these proposals with counsel.

If you have any questions, please call.

Sincerely,

Milliman, Inc.

Robert S. Dezube, FSA
Consulting Actuary

C: Tammy Davis
Travis Turner

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